

THE

Cotton

SITUATION

BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

CS-45

BAE

JULY 1940

COTTON. AMERICAN: EXPORTS TO AND MILL CONSUMPTION
IN SPECIFIED AREAS, 1927-39

U. S. DEPARTMENT OF AGRICULTURE

REG. 55515 BUREAU OF AGRICULTURAL ECONOMICS

THERE HAS BEEN A MARKED DECLINE IN EXPORTS TO AND COTTON CONSUMPTION IN CONTINENTAL EUROPE DURING RECENT YEARS, THE RESULT BOTH OF INCREASED USE OF FOREIGN GROWTHS AND OF INCREASED PRODUCTION AND CONSUMPTION OF SYNTHETIC FIBERS. NEVERTHELESS, CONTINENTAL EUROPE CONTINUED TO BE THE PRINCIPAL EXPORT MARKET FOR AMERICAN COTTON UP UNTIL THE LAST FEW WEEKS. AT THE PRESENT TIME MOST OF THIS AREA IS NO LONGER ACCESSIBLE TO AMERICAN EXPORTERS.

EXPORTS OF AMERICAN COTTON TO GREAT BRITAIN WERE LARGER DURING THE CURRENT SEASON THAN FOR 13 YEARS. SMALL STOCKS AT THE BEGINNING OF THE SEASON AND INCREASED PRODUCTION OF GOODS FOR MILITARY AND CIVIL DEFENSE PURPOSES WERE THE REASON.

THE COTTON SITUATION

Summary

The improvement in the domestic cotton textile situation during recent weeks is in strong contrast to unfavorable developments abroad. Mill activity has increased considerably in the United States, but it has recently declined in Great Britain, Japan, and China, three of the largest markets now open to exporters of American and competing cottons.

The seasonally adjusted index of domestic cotton consumption increased somewhat in June. Weekly trade data indicate that a substantial further increase occurred during the first half of July. Although manufacturers' sales of cotton goods have been somewhat restricted, cloth prices have remained firm, apparently bolstered by trade opinion that sales have not yet reflected the improvement which has occurred during recent weeks in domestic industrial production, employment, and payrolls. Most observers believe the outlook for cotton consumption to be very favorable. This is due to the armament program and expected accompanying high level of general business activity, together with a continuation of the cotton products export-aid program, a prospective expansion of the cotton stamp plan, and other measures to encourage mill consumption.

Although British mill consumption has continued exceptionally high, cotton mill activity and retail sales have declined considerably in recent weeks. Manufacturers not engaged in Government work are said to have been steadily losing ground, and additional curtailment is expected unless there is an early improvement in demand. Export demand is believed to be especially low.

In Japan a further sharp decline in cloth exports was reported for June, accompanied by an 8-percent decline in cotton mill consumption. Despite

an agreement to restrict September production of goods for export to 20 percent below that for July, even this restricted amount is said to be far too large unless cloth exports improve.

In China mill activity was reduced considerably during June, and Japanese mills in Shanghai were scheduled to curtail activity at least 30 percent beginning July 1.

The unfavorable developments in foreign countries no doubt have contributed to the approximately 1/2-cent decline in domestic cotton prices during the past 5 weeks. Despite this decline, prices in late July were still approximately 9/10 cent above the low point of May and about 3/5 cent higher than a year earlier. Unfavorable weather conditions in late June and early July were reported in a substantial part of the American Cotton Belt. This also may have been a factor contributing to the price rise during that period. More recently weather conditions apparently have been more favorable.

It now seems likely that domestic mill consumption for the year ended July 31, 1940 will approximate 7,750,000 bales, including about 130,000 bales of foreign cotton. Exports of American cotton should total a little less than 6,200,000 bales. This, together with domestic mill consumption, indicates a total domestic distribution of American cotton for 1940-41 of just under 13,800,000 bales. This is nearly 3,800,000 bales more than distribution in 1938-39 and is expected to reduce the domestic carry-over of American cotton nearly 2-1/4 million bales below the record carry-over on August 1, 1939 of nearly 13 million bales. A considerable part of the decrease in the domestic carry-over will be offset by larger stocks in foreign countries. Scarcity of information relative to foreign mill consumption, however, makes it difficult to determine the amount of cotton on hand in foreign countries at the present

PRICES

Domestic spots decline slightly,
most futures about unchanged

Following the advance of 1-1/3 cents in domestic spot prices from the third week of May to the third week of June there was a slow but steady decline for the next 5 weeks. The average price of Middling 15/16 on July 27 of 10-1/4 cents was 1/2 cent below the high reached on June 19. It was, however, approximately 9/10 cent above the low point of May. With the exception of May, it was lower than the average for any month since last November. In July last year the average was 9.65.

Uncertainties as to future developments, and the question of the extent to which these factors may have been discounted, make it particularly difficult to determine the exact causes for the price fluctuations of recent weeks. For example, the spread of the war and extension of the blockade to the Mediterranean area should have tended to depress domestic prices, but for some time immediately prior to Italy's entry into the war this expected development probably was discounted in cotton prices. More recently there has been uncertainty as to the course of the war in the near future and its effect on Britain and continental Europe's demand for raw cotton.

Despite these uncertainties, cotton prices in recent weeks have undoubtedly anticipated an unusually low foreign demand for American cotton during the months immediately ahead. In the first place most of the important cotton import markets are now blockaded. Furthermore, mill activity in three of the largest markets now available - Great Britain, Japan, and China - has recently declined considerably and further declines are expected. The unfavorable export situation, however, has been offset to at least a large extent by several factors. One of these is the relatively short supply of American cotton not owned or financed by the Government. Another factor is the present relatively high domestic consumption and the possibility of sustained or even increased consumption as the Government's armament program is accelerated, and employment, payrolls, and industrial demand conditions further improve. The favorable outlook for domestic consumption is also aided by a continuation of the Cotton Products Export Subsidy Program, the continuation and expansion of the Stamp Plan, as well as other Government measures designed to increase domestic consumption. An additional price-strengthening factor is the expectation in trade channels that a loan on the new crop will soon be announced. In late June and early July weather conditions also appeared to have been somewhat unfavorable for the development of the domestic crop, and this, too, helped to offset the price-depressing effects of the unfavorable export situation. More recently, however, weather conditions have improved.

Prices of most domestic futures quotations showed little net change from the third week of June to the fourth week of July. This, along with the decline in spot prices, reduced the spread of spots over futures about 2/5 to 1/2 cent, compared with the third week of June. Nevertheless, spot prices continue high relative to futures quotations, with New York futures on July 26 ranging from about 4/5 to 1-2/5 cents below the average of Middling 15/16 in the ten spot markets.

Cotton: Spot price per pound, specified growths at Liverpool, Osaka and New Orleans, specified periods

2-45

Season, month or day	Liverpool, England						Osaka, Japan						New Orleans					
	American			Indian			Egyptian			Brazilian			Ameri-			Indian		
	Fine Oomra #1			F.G.F. Uppers			As a : : % of : Ac- : : Ameri- : : can : : Mid- : : dling :			Fair, Sao Paulo			can :			1/ Acola		
	Ct.	Ct.	Ct.	Pct.	Ct.	Pct.	Ct.	Pct.	Ct.	Pct.	Ct.	Pct.	Ct.	Pct.	Ct.	Ct.	Pct.	Ct.
10-yr. av.	14.50	13.60	11.19	78.0	17.12	117.9	14.08	97.7	14.74	11.37	77.1	12.65	1.85	2.09				
1927-28	14.62	13.16	10.87	74.4	17.40	119.0	14.12	96.6	15.75	11.58	73.5	12.79	1.83	2.96				
1936-37	10.31	8.73	7.96	77.1	13.10	126.7	10.18	98.7	12.70	9.95	78.3	8.79	1.52	3.91				
1937-38	10.15	8.71	7.14	70.4	11.80	116.5	9.63	94.9	2/ 10.89	2/ 7.86	72.2	8.73	1.42	2/ 2.29				
1938-39																		
1938-39 -																		
June	11.04	9.38	7.61	68.9	11.47	103.9	10.18	92.2	3/ 10.18	3/ 9.37	92.2	9.45	1.59	3/				
July	10.61	8.95	7.31	68.9	11.43	107.7	9.85	92.8	3/ 9.85	3/ 9.37	92.8	9.37	1.24	3/				
1939-40 -																		
Aug.	10.16	8.53	7.38	72.6	11.35	111.7	9.37	92.2	3/ 9.37	3/ 9.37	92.2	8.95	1.21	3/				
Sept.	11.21	9.79	8.56	76.4	12.49	111.4	10.71	95.5	3/ 10.71	3/ 9.55	95.5	9.02	2.19	3/				
Oct.	10.65	9.41	8.41	79.0	12.03	113.0	10.45	98.1	3/ 10.45	3/ 98.1	98.1	8.92	1.73	3/				
Nov.	11.66	10.79	9.46	81.1	12.70	108.9	11.59	99.4	3/ 11.59	3/ 99.4	99.4	9.40	2.26	3/				
Dec.	14.14	13.32	11.69	82.7	15.80	111.7	14.14	100.0	13.23 11.29	3/ 11.29	85.3	10.64	3.50	2.59				
Jan.	14.81	14.12	12.31	83.1	17.50	118.2	14.87	100.4	3/ 14.87	3/ 100.4		10.79	4.02	3/				
Feb.	13.74	13.11	11.09	80.7	17.14	124.7	13.94	101.5	13.86 10.06	3/ 10.06	72.6	10.67	3.07	3.19				
Mar.	13.06	12.53	10.68	81.8	17.17	131.5	13.23	101.3	13.60 9.39	3/ 9.39	69.0	10.43	2.63	3.17				
Apr.	13.47	12.38	10.70	79.4	17.64	131.0	13.47	100.0	13.52 8.88	3/ 8.88	65.7	10.54	2.93	2.98				
May	12.95	12.36	10.23	79.0	17.44	134.7	12.95	100.0	12.82 7.67	3/ 7.67	59.8	10.05	2.90	2.77				
June	12.61	12.02	9.37	74.3	18.26	144.8	12.43	98.6	12.87 6.89	3/ 6.89	53.5	10.54	2.07	2.33				
June 7	12.44	11.86	9.84	79.1	17.01	136.7	12.44	100.0	3/ 12.44	3/ 100.0		10.22	2.22	3/				
14	12.16	11.57	9.01	74.1	16.99	139.7	11.99	98.6	3/ 11.99	3/ 98.6		10.85	1.31	3/				
21	13.11	12.53	9.51	72.5	19.62	149.7	12.86	98.1	3/ 12.86	3/ 98.1		10.74	2.37	3/				
28	12.75	12.16	9.12	71.5	19.45	152.5	12.41	97.3	4/ 12.87 4/ 6.89	4/ 6.89	4/ 53.5	10.60	2.15	4/ 2.33				
July 5	13.11	12.44	9.26	70.6	19.59	149.4	12.61	96.2	3/ 12.61	3/ 96.2		10.55	2.56	3/				
12	13.38	12.71	9.53	71.2	20.07	150.0	12.88	96.3	3/ 12.88	3/ 96.3		10.50	2.88	3/				
19	13.13	12.46	9.44	71.9	19.10	145.5	12.54	95.5	3/ 12.54	3/ 95.5		10.30	2.83	3/				
26	13.33	12.75	9.61	72.1	19.37	145.3	12.83	96.2	3/ 12.83	3/ 96.2		10.10	3.23	3/				

Continued -

Cotton: Spot price per pound, specified growths at Liverpool, Osaka and New Orleans, specified periods -Continued

Prices at Liverpool are compiled from reports of the Liverpool Cotton Association except for recent weeks which are from cables and reports of the New York Cotton Exchange. Prices were reported in cents per pound and converted to cents per pound at current official rates of exchange. Prices at Osaka are from "The Ten-Days Return of Cotton", Osaka, and cables to the Bureau of Agricultural Economics. They were reported in yen per picul and converted to cents per pound using monthly exchange rates as reported by the Federal Reserve Board. Prices at New Orleans are from reports of the New Orleans Cotton Association.

1/ Average of Hinganghat, Yeotmal and Akora, referred to as Acola or the Acola group.

2/ Average for 10 months. Ten-months average for New Orleans 8.60.

3/ Not available.

4/ June average.

Cotton: Spot price per pound at New Orleans, Bombay,
and Sao Paulo, specified periods 1/

Season month or day	:Bombay:Sao Paulo:			New Orleans	
	:Indian:	Brazilian:	American:	Spread over:	Spread over
	: Oomra:	type	:middling:	Oomra at	: Brazilian
	: fine :	5	: 15/16" :	Bombay	:at Sao Paulo
	: Cents	Cents	Cents	Cents	Cents
10 yr. av.:	:				
1927-28	:				
to 1936-37	: 10.06	14.11	12.99	2.93	-1.12
1936-37	: 10.08	12.95	13.45	3.37	0.50
1937-38	: 7.27	9.26	9.24	1.97	- 0.02
1938-39	: 6.57	8.40	9.04	2.47	0.64
June	: 7.17	8.78	9.75	2.58	0.97
July	: 6.81	8.16	9.67	2.86	1.51
1939-40	:				
Aug.	: 6.76	7.72	9.18	2.42	1.46
Sept.	: 7.33	8.69	9.22	1.89	0.53
Oct.	: 7.46	8.73	9.12	1.66	0.39
Nov.	: 8.61	9.76	9.60	.99	- 0.16
Dec.	: 10.50	11.91	10.84	.34	- 1.07
Jan.	: 10.46	11.35	10.98	.52	- 0.37
Feb.	: 9.16	10.70	10.87	1.71	0.17
Mar.	: 8.78	9.69	10.63	1.85	0.94
Apr.	: 8.82	8.87	10.74	1.92	1.87
May	: 7.69	7.58	10.25	2.56	2.67
June	: 5.84	6.69	10.74	4.94	4.05
June 7	: 5.72	6.22	10.42	4.70	4.20
14	: 5.84	6.70	11.05	5.21	4.35
21	: 5.89	7.39	10.94	5.05	3.55
28	: 5.53	6.70	10.80	5.27	4.10
July 5	: 5.39	6.97	10.75	5.36	3.78
12	: 6.37	6.98	10.70	4.33	3.72
19	: 6.32	6.66	10.50	4.18	3.84
26	: 6.88		10.30	3.42	

Minus sign indicates Indian or Brazilian over American. Prices at Bombay are from Bombay Cotton Annual and Financial News through March 1940. April 1940 to date from New York Cotton Exchange reports. They were converted from rupees per candy of 784 pounds at current rates of exchange (buying rates in recent weeks) as reported by the Federal Reserve Board. Through August 1932 monthly data are averages of daily prices; from September 1932 to date average of Wednesday or Thursday quotations. Prices at Sao Paulo are from official Brazilian publications and material from the American Consular Service at Sao Paulo. Monthly averages are as quoted through December 1934. From January 1935 to date they are averages of buyers' and sellers' quotations. Prices were converted from milreis per 15 kilograms at current rates of exchange until September 1934, October 1934 to Feb. 10, 1935 at open or free market rates, and from February 11 to date at composite averages of official and free market rates; except from Nov. 16, 1937 through Apr. 10, 1939 when free market rates were used.

1/ Prices of Indian are spot or near futures prior to September 1932. From Apr. 1, 1940 to date they are near futures.

Indian and Brazilian cottons decline relative
to American, and Egyptian Uppers further increase

In Liverpool prices of Indian and Brazilian cottons declined further relative to the price of American during the last few weeks. As of July 26 the price of Indian Oomra #1 was equivalent to 72 percent of the price of American Middling. On June 7 this ratio was 79 percent. Between these two dates the price of Brazilian Sao Paulo declined from 100 percent of the price of American Middling to 96 percent. During the same period, on the other hand, Egyptian Uppers increased from 137 percent of the price of American to 152 percent on June 28 and 145 percent on July 26.

The recent declines in the relation of Indian and Brazilian to American have placed these growths in a more favorable price position than normally exists. In the 10 years ended July 1937 Indian Oomra averaged 78 percent of the price of American Middling and Brazilian Sao Paulo approximately 98 percent. About the middle of the season now drawing to a close each of these growths was much higher than usual in relation to American.

EXPORTS

United States weekly exports irregular,
but average above last year

Domestic exports of cotton continued well above last year during the 6-week period ended July 25, despite the almost complete cessation of exports to continental Europe. During this period total exports of American cotton were 10 percent larger than in the corresponding weeks last year, and 31 percent less than in the like period of 1938, according to data released by the New York Cotton Exchange. This occurred even though only 9,000 bales were exported to the whole of continental Europe. During this 6 weeks' period about 9/10 of total exports went to Great Britain, Japan, and Canada. From August 1 to July 25 exports totaled 6,100,000 running bales, exceeding those of the like period in 1938-39 by 83 percent. They were, however, only 8 percent larger than in the corresponding period of 1937-38.

In June exports were 134,000 running bales, according to data released by the Department of Commerce. This was 18 percent larger than in June 1939, but smaller than in any other June since 1903. Although exports to France in June were not large, amounting to only 12,000 bales, they were 4 times as large as the small exports of June last year. Marked or substantial percentage increases occurred in exports to the United Kingdom, Canada, China, and Japan.

For the 11 months, August through June, exports, as officially reported, totaled 6,055,000 bales, an increase of 88 percent over the 3,220,000 bales exported during the corresponding months a year earlier. The 11-month total was, however, 500,000 bales less than the 10-year (1928-39 to 1937-38) average for August to June. During the 11-month

Cotton: Exports from specified countries, average 1928-29
to 1937-38, and seasons 1937-38 to date

Country of origin and destination	June					Aug. to June				
	: 10-yr.av:	:	:	:	:	: 10-yr.av:	:	:	:	: 1939-40
	: 1928-29 :	1938 :	1939 :	1940 :	as a :	1928-29 :	1937-:	1938-:	1939-:	as a
	: to :	to :	to :	to :	% of :	to :	38 :	39 :	40 :	% of
	: 1937-38 :	:	:	:	: 1939 :	: 1937-38 :	:	:	:	: 1938-39
	: 1,000	1,000	1,000	1,000		1,000	1,000	1,000	1,000	
	: run.	run.	run.	run.		run.	run.	run.	run.	
	: bales	bales	bales	bales	Pct.	bales	bales	bales	bales	Pct.
<u>United States to:</u>										
Germany	51	17	15	0	---	1,183	645	307	19	6.19
United Kingdom..	50	22	10	26	260.0	1,264	1,521	394	1,847	468.8
France	18	8	3	12	400.0	683	711	335	724	216.1
Italy	33	19	9	7	77.8	547	483	261	542	207.7
Spain	10	1	1/	2	---	202	1	16	270	1,687.5
Belgium	7	6	2	0	---	150	184	86	200	232.6
Canada	14	16	24	40	166.7	215	233	215	392	182.3
Japan	69	30	28	35	125.0	1,403	621	846	872	103.1
China	27	1/	2	3	150.0	262	22	84	406	433.3
Other countries:	43	57	21	9	42.9	600	982	676	783	115.8
Total	322	176	114	134	117.5	6,509	5,403	3,220	6,055	188.0
	: 1,000	1,000	1,000	1,000		1,000	1,000	1,000	1,000	
	: bales	bales	bales	bales		bales	bales	bales	bales	
	: 478 lb.	478 lb.	478 lb.	478 lb.	Pct.	478 lb.	478 lb.	478 lb.	478 lb.	Pct.
<u>Egypt to</u>										
United Kingdom..	29	33	30	30	100.0	510	543	533	628	117.8
France	14	13	15	1/	---	193	224	183	314	171.6
United States ..	3	1	1	3	300.0	88	34	33	57	172.7
Germany 2/	9	12	23	0	---	143	194	198	12	6.1
Italy	8	8	6	2	33.3	108	110	102	97	95.1
Japan	5	7	12	4	33.3	102	78	146	139	95.2
British India ..	4	6	4	1	25.0	68	127	80	116	145.0
Other countries:	22	26	28	5	17.9	306	358	365	259	71.0
Total	94	106	119	45	37.8	1,518	1,668	1,640	1,622	98.9
	: Apr.					: Aug. to Apr.				
<u>Brazil to</u>										
Japan	3/	6	8	2	25.0	3/	65	206	86	41.7
United Kingdom..		4	4	23	575.0		143	154	201	130.5
Germany		33	35	0	---		337	187	70	37.4
France		3	3	1/	---		36	88	55	62.5
Italy		1	6	3	50.0		6	45	20	44.4
Netherlands		1/	1	1	100.0		9	21	27	128.6
Belgium		1	1/	1	---		17	18	19	105.6
Other countries:		4	14	17	121.4		48	123	101	82.1
Total	23	52	71	47	66.2	291	661	842	579	68.8

Compiled from official sources.

1/ Less than 500 bales.

2/ Includes Austria beginning January 1938.

3/ Not available by countries.

period exports to Italy, France, Belgium, and the United Kingdom were from 2 to over $4\frac{1}{2}$ times as large as in the corresponding months of 1938-39. Marked percentage increases also occurred in exports to a number of other countries. (See accompanying table.)

The outlook for exports during the months immediately ahead is obviously dependent, to a large degree, on developments in the European war. As long as the main consuming areas of continental Europe continue blockaded, cotton exports are likely to be greatly restricted. In the 5 years ended 1938-39 continental Europe, excluding Russia, consumed approximately 2,536,000 bales of American cotton, which was equivalent to 46 percent of the total foreign consumption of American. In addition, this area consumed about 2,962,000 bales of foreign cotton, most of which was imported from countries now shut off from at least most of this important consuming region. A continuation of this situation would mean that domestic exports to this area would continue to be negligible. Furthermore, American cotton would meet increased competition from foreign growth in the few remaining export markets.

In addition, it is expected that imports into Japan and the United Kingdom, as well as to some of the other remaining markets, will be much less in 1940-41 than in the season ending July 31, 1940. This expectation is due in part to the increased stocks of American and other cotton on hand in these countries, and the possibility that consumption may be smaller than in 1939-40. As indicated in the accompanying discussion of the cotton textile situation in Japan and China, the unfavorable outlook for Japanese cloth exports, as well as prospects for a further reduction in home consumption, seem likely to materially restrict Japanese mill consumption for the 12 months beginning in August, as compared with the preceding 12 months. Mill consumption in the United Kingdom may also be smaller in 1940-41 than in the season just ended.

DEMAND AND CONSUMPTION

UNITED STATES: Mill activity and general industrial production increase

United States cotton mill activity adjusted for seasonal variations increased materially in June and early July, according to trade data. For the week ended July 20 domestic mill activity was 13 percent higher than in late May, according to indexes released by the New York Times. The New York Times' index for the week ended July 20 showed mill activity at 138 percent of normal, compared with 142 and 122 percent for the weeks ended July 13 and May 25, the latter being the lowest since July last year. In July last year this index averaged about 128. The Federal Reserve Board's index of cotton consumption (1923-35 = 100) was 118 in June compared with 116 in May, 113 in April, and 115 in June last year.

The higher rate of mill activity during the last few weeks has existed despite the fact that manufacturers' sales of cotton goods are said to have been less than production. Some lines of producers are reported as now having relatively small orders on hand, but this is not viewed with particular concern. The recent increases in industrial production, employment, and pay

rolls are generally considered as creating a favorable outlook for cotton consumption and mill activity for the weeks and months immediately ahead. Observers in the cotton trade are forecasting consumption for 1940-41 all the way from about the same as the unusually high consumption in 1939-40 to 10 or even 15 percent larger. It now seems almost certain that consumption in 1939-40 will be reported at close to 7,750,000 bales. For the 11 months ended June 30 consumption totaled 7,148,000 bales, an increase of 810,000 bales over the corresponding period of 1938-39.

EUROPE: Mill activity declines in Great Britain
and apparently continues low in continental Europe

British cotton mill activity and British retail sales have declined considerably in recent weeks, according to a cable dated July 22 from the office of the American Ambassador at London. As a result British mill workers' work-week was reduced, effective July 22, from about 55½ hours back to 48 hours, and the operatives' holidays, which had not been permitted since early June, were to have been resumed.

British cotton mill consumption, however, has continued exceptionally high, largely as a result of heavy output of goods for military and civil defense purposes. New efforts are being made on the part of British officials to stimulate exports of cotton textiles. The formation of a British export syndicate is reported as proceeding actively. Manufacturers are now agitating for a relaxation of the proposed restriction, effective October 1, on the sale of cotton goods to retailers. Government buying of cotton textiles was reported to have become less active during recent weeks, and it seems likely that the production of goods on Government orders may now be, or soon will become, somewhat smaller than in the immediate past. Manufacturers not engaged in Government work are said to have been steadily losing ground and considerable machinery is expected to become idle unless there is an early improvement in demand. Nevertheless, if the war continues, and if there is no serious damage to machinery, cotton consumption should continue high even though materially below the level of the past few weeks.

It is not known to what extent mills in France, Belgium, and Holland were damaged by military operations, but it is believed to have been considerable. The cotton industry in the Netherlands, on the other hand, appears to have been little affected. In view of the shortage of raw cotton which has no doubt existed in the German-controlled area, mill activities in German mills may have been increased during recent weeks through the use of cotton which came under German control after the occupation of France and the Low Countries. Even so, it seems quite likely that cotton mill consumption in continental Europe as a whole is now running materially below the level existing prior to the beginning of the war.

ORIENT: Mill activity further restricted
in Japan and China

Japanese mill consumption of raw cotton is estimated to have been about 8 percent lower in June than in May and 15 percent lower than in June last year. Despite the reduced production of cotton yarn and piece-goods there was a further accumulation of excessive stocks of unsold

piece-goods. With the loss of virtually all sterling currency markets, and reductions in other markets for cotton goods, export prices of cotton textiles have declined to an unprofitable point. These developments are said to have brought about a gradual recognition by cotton manufacturers that, as a result of the China emergency, and the heavy armament and industrialization program of Japan, along with the European war, the Japanese cotton textile industry is now face to face with prospects of further retrenchment.

In June Japanese cloth exports dropped to 110 million square yards compared with 147 million square yards in May and 181 million in June last year. June exports were the smallest for any month since February 1932. Reduced exports, small sales, and large stocks of unsold goods have resulted in an agreement among manufacturers to further curtail output. It is said that an agreement has been reached to limit production of yarn for export or for use in the production of cloth for export in September to 100,000 bales. This is 20 percent less than that agreed to for July. With cloth exports at June levels, even this production of such yarns is said to be far too large. Figures on cloth stocks remain closely guarded, but the best evidence available indicates such stocks must now be well in excess of 1 billion square yards.

All signs are said to point to further postponement of Japanese purchases of new crop American cotton. Prospective buyers are being restrained by probable further restrictions in mill activity. It is said that they also hope for a price reduction through an export payment program such as existed in 1939-40, which would make American cotton more competitive with Brazilian and Indian.

It is reported that the Finance Ministry and the cotton industry have applied themselves vigorously to the problem of making payments on cotton which are over due. Appreciable progress is reported with payments being released at faster rates than shipments are arriving, thus reducing the net unpaid balance. Estimated unpaid cotton in Japan on June 30 is believed to have not exceeded 280,000 bales, of which about 175,000 bales were American.

Cotton mill activity in most of the important mill regions of China, including Manchuria, was reduced during June. In Manchuria mill curtailment rates were increased to 84.25 percent in June compared with 64.25 in May. The mills in northern China were reported to have been operating at less than 50 percent. In Shanghai mill operations were reduced somewhat but continued at a much higher rate than in most other parts of China, but it is reported that Japanese mills there have decided to curtail activity at least 30 percent beginning July 1. Chinese mills in Shanghai are also expected to reduce production further. Mills in northern China, on the other hand, are expected to increase their operations slightly as a result of having obtained permits for importing substantial quantities of foreign cotton in July and August. Total mill consumption in China, including Manchuria, during June is estimated at 130,000 bales compared with 145,000 bales in May. At this rate of consumption, ^{mill} stocks of raw cotton are reported to be sufficient for at least 2 months' activity with relatively large amounts of cotton previously purchased yet to arrive.

The decline in cotton mill consumption in China during recent weeks has been influenced by the large speculative supplies of yarns and piece-goods which had accumulated, declining yarn prices due to improvement in the value of Chinese currency, declines in cotton prices in foreign markets, offerings of Japanese yarns at low prices, and decreases in actual demand from the interior caused by intensified Japanese blockade of the Chinese controlled area.

In June mill consumption of Indian cotton in India is reported to have totaled 250,000 bales of 400 pounds. This is slightly less than the 261,000 bales (revised) consumed in May, or the 254,000 bales consumed in June last year. For the 11 months, August through June, consumption is now reported to totaled 2,700,000 bales, which is only 5 percent less than the record consumption of the corresponding period last season and with that exception the largest on record. In view of the sharp decline in imports of cotton textiles it is not surprising that mill consumption in India has been running at near record levels. From August through January total imports of cotton cloth were equivalent to roughly 150,000 bales of 478 pounds net weight of raw cotton, compared with 180,000 bales during the corresponding period a year earlier. Most of this decrease was in imports from the United Kingdom and Japan where the conduct of war operations has severely hampered the export of cotton goods.

ACREAGE, PRODUCTION, STOCKS, AND SUPPLY

United States acreage slightly larger

The acreage of cotton in cultivation in the United States on July 1 was estimated by the Crop Reporting Board to be 25,077,000 acres. This is 1.6 percent more than the 24,683,000 acres in cultivation on July 1, 1939, but 28.2 percent less than the 10-year (1929-38) average. With average abandonment the indicated acreage for harvest would be the smallest, with the exception of 1938 and 1939, in any year since 1899. Total plantings are well below the Agricultural Conservation Program allotments even though some farmers are said to have planted in excess of their allotments. Some of these farmers are expected to remove their excess acreage.

In most States the acreage in cultivation July 1 this year was the same as that of a year earlier, or showed increases of 4 percent or less. In North Carolina, New Mexico, and Arizona, however, there were increases of from 10 to 20 percent. A substantial part of the increase of acreage in Arizona is accounted for by a marked increase in the acreage of American-Egyptian cotton. The total acreage in American-Egyptian increased from 41,000 acres in 1939 to 70,000 acres in 1940, the figure for 1940 including a small acreage in New Mexico. There was also a large increase in the acreage of Sea Island cotton in cultivation in 1940.

August 1 domestic carry-over is expected to show marked decline, but still total nearly 11 million bales

With domestic mill consumption for the 11 months ending in June reported at approximately 7,150,000 bales, it is now expected that the total for the

1939-40 season will approximate 7,750,000 bales. All but about 130,000 bales of this will be American cotton. Domestic consumption, plus exports, should total just under 13,800,000 bales compared with a domestic distribution of American cotton in 1938-39 of about 10,000,000 bales. The indicated distribution for the year ending July 31, 1940 seems likely therefore to exceed the season ginnings, plus the adjustments for the "city crop," by nearly 2-1/4 million bales. This in turn would indicate that the carry-over of American cotton on August 1 this year will be reported as totaling just over 10-3/4 million bales. On August 1 last year the carry-over was almost 13 million bales.

Because of the war, data on mill consumption and stocks in foreign countries are scarce. It is believed, however, that stocks of American cotton in such countries are now materially larger than on August 1 of last year, consumption in foreign countries during the 1939-40 season apparently having been materially less than imports of American cotton. It is possible that foreign stocks may have increased, roughly, equivalent to half of the decrease in domestic stocks.

In view of the expected total domestic carry-over of American cotton, and the indicated stocks of Government loan and Government owned cotton, it seems likely that domestic stocks of "free" American cotton on August 1, 1940 may amount to a little under 2,000,000 bales. This is somewhat smaller than the total of such stocks a year earlier and the smallest for any year since 1925.